

## Message Text

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43

ACTION EUR-12

INFO OCT-01 EA-07 IO-11 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 PA-01 PRS-01 /103 W

----- 116250

R 171120Z FEB 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2134

INFO AMEMBASSY CANBERRA

AMEMBASSY VIENNA

AMEMBASSY BRUSSELS

AMEMBASSY OTTAWA

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY ATHENS

AMEMBASSY REYKJAVIK

AMEMBASSY DUBLIN

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY LUXEMBOURG

AMEMBASSY THE HAGUE

AMEMBASSY WELLINGTON

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AMEMBASSY OSLO

AMEMBASSY MADRID

AMEMBASSY STOCKHOLM

AMEMBASSY ANKARA

AMEMBASSY LONDON

USMISSION OECD PARIS

USMISSION OECD BRUSSELS

AMCONSUL ZURICH

USMISSION GENEVA

USDEL MTN GENEVA

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E.O. 11652: GDS

TAGS: EFIN SZ

SUBJ: ALEXANDER HAY ON THE INTERNATIONAL MONETARY SYSTEM

REF: BERN 666

1. SUMMARY. IN A CONVERSATION WITH THE ECON/COM COUNSELOR, HAY'S REMARKS REFLECTED GENERAL SWISS UNHAPPINESS ABOUT THE STATE OF THE INTERNATIONAL MONETARY SYSTEM AFTER JAMAICA. THE MAJOR AREA OF HAY'S CONCERN WAS NOT THE ARRANGEMENT ON GOLD. WHAT WORRIES HIM MOST IS WHAT HE SEES AS THE END OF RULES REQUIRING AT LEAST SOME NON-POLITICAL (I.E. NON-INFLATIONARY) SOLUTIONS TO ECONOMIC PROBLEMS, AND THE CONSEQUENT EXPANSION OF IMF CREDIT FACILITIES. HE FEARS THAT IT MAY BE NECESSARY TO ALLOW ITALY A MORATORIUM ON PAYMENT OF EXTERNAL LOANS AND THE EFFECTS OF SUCH A MORATORIUM ON THE THIRD WORLD AND ITS DEMANDS ON THE DEVELOPED COUNTRIES IN THE ATMOSPHERE WHICH LED TO AND RESULTED IN THE AGREEMENTS IN JAMAICA. END SUMMARY.

2. ALEXANDER HAY, FOR 23 YEARS VICE-PRESIDENT OF THE SWISS NATIONAL BANK, WILL LEAVE THIS POSITION AT THE END OF MARCH TO TAKE UP HIS NEW DUTIES AS PRESIDENT OF THE SWISS INTERNATIONAL RED CROSS. THE ECON/COM COUNSELOR CALLED ON HIM ON FEBRUARY 13 TO SAY FAREWELL. DURING THE COURSE OF THE CONVERSATION HAY COMMENTED AT SOME LENGTH ON THE CURRENT INTERNATIONAL MONETARY SITUATION.

3. IN HAY'S VIEW, WHAT CAME OUT OF THE JAMAICA MEETING WAS ANOTHER STEP TOWARDS LOSS OF CONTROL OVER EVENTS IN THE INTERNATIONAL MONETARY FIELD. FOR YEARS THE INDUSTRIALIZED COUNTRIES, IN LIEU OF TRANSFERRING REAL RESOURCES TO THE LDC'S IN AMOUNTS BEYOND THOSE POLITICALLY ACCEPTABLE TO THE DC'S, HAVE ALLOWED THE LDCS TO BUILD UP DEBTS THEY CANNOT REPAY. RATHER THAN FORCING THE ISSUE, INFLATIONARY SOLUTIONS OF ONE SORT OR ANOTHER, CONFIDENTIAL

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INVOLVING THE CREATION OF ADDITIONAL INTERNATIONAL LIQUIDITY, HAVE BEEN ADOPTED. THESE MEASURES ARE INADEQUATE AND MAKE A NON-INFLATIONARY SOLUTION MUCH MORE DIFFICULT. JAMAICA WAS ANOTHER STEP IN THIS DIRECTION. THE SERIOUSNESS OF THIS STEP BECOMES EVEN MORE APPARENT WHEN ONE FINDS, AS AT JAMAICA, A DC, UK, SIDING WITH THE LDC'S. HAY FEARS THAT ANOTHER DC, ITALY, MAY SOON BE FORCED TO ASK FOR A MORATORIUM ON ITS EXTERNAL DEBT. ITALY'S

CREDITORS HAVE MADE IT TOO EASY FOR ITALY TO AVOID THOSE INTERNAL MEASURES NECESSARY TO DEAL WITH THE FUNDAMENTAL CAUSES OF ITALY'S PROBLEMS. HAY BELIEVES THAT ITALY'S CREDITORS WILL CONTINUE TO DO SO, THAT A MORATORIUM WOULD BE GRANTED, THAT LDC'S WILL DEMAND THE SAME TYPE OF MEASURE, AND THAT THE DC RESPONSE WILL LEAD TO A LARGE AND INFLATIONARY INCREASE IN INTERNATIONAL LIQUIDITY.

4. HAVING DESCRIBED THE PROBLEM AS HE SEES IT, HAY ADMITTED THAT HE HAD NO SOLUTION TO OFFER. THE ISSUE, HE SAID, IS POLITICAL, AND NO POLITICAL ANSWER IS IN SIGHT. BUT UNLESS ONE IS FOUND, EVERY STEP IN THE DIRECTION OF THOSE TAKEN AT JAMAICA MAKES A SOLUTION MORE DIFFICULT.

5. HAY FULLY UNDERSTANDS THE REASONS BEHIND THE U.S. POSITION ON EXCHANGE RATES AND ACCEPTS THE FACT THAT FOR THE TIME BEING A RETURN TO FIXED OR STABLE BUT ADJUSTABLE RATES IS HARDLY LIKELY. HE REGRETS, HOWEVER, WHAT HE SEES AS THE DIMINUTION OF THE IMF'S ROLE IN IMPOSING A MEASURE OF DISCIPLINE ON THE SYSTEM, QUESTIONS WHETHER "CLOSE SURVEILLANCE" HAS ANY MEANING WHATSOEVER, AND CONSIDERS THAT THE IMF IS BECOMING MERELY A LENDING INSTITUTION WITH QUESTIONABLE LENDING POLICIES, AND A CONTRIBUTOR TO WORLD-WIDE INFLATION.

6. HAY'S VIEWS ARE SHARED BY A NUMBER OF SWISS WITH WHOM WE HAVE DISCUSSED THESE ISSUES SINCE JAMAICA. ONLY ONE HAS GONE SO FAR AS TO LABEL THE RESULTS OF JAMAICA THE CONTINUATION OF DOLLAR IMPERIALISM, BUT PRIVATE SWISS BANKERS AND GOVERNMENT OFFICIALS HAVE EXPRESSED CONCERN ABOUT TRENDS IN THIS FIELD. MANY  
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OF THEM ASCRIBE THE DIRECTION OF THOSE TRENDS TO U.S. POLICIES. IN FACT THEIR CONCERN REFLECTS THEIR INCREASING REALIZATION THAT SWITZERLAND CANNOT CONTROL ITS ECONOMY AS FREELY AS IN THE PAST, IN PART IT REFLECTS THE TRADITIONAL CONSERVATISM OF SWISS ECONOMIC POLICY. OUR CONTACTS FOR THE MOST PART ADMIT THAT SWITZERLAND HAS NO CHOICE BUT TO ACCEPT THE FACT OF U.S. ECONOMIC LEADERSHIP AND ITS IMPACT ON SWITZERLAND. THEY DO NOT BELIEVE THAT THEIR VIEWS, ON THE CONTRARY HAVE AN IMPACT ON U.S. ECONOMIC POLICIES, WITH WHICH THEY MAY DIFFER BUT OVER WHICH THEY OF COURSE HAVE NO CONTROL. AS SOME INFLUENTIAL SWISS SEE IT THOSE POLICIES ARE CONTRIBUTING TO, IF NOT CAUSING, THE CREATION OF EXCESSIVE INTERNATIONAL LIQUIDITY AND INCREASING INFLATIONARY PRESSURE. THEY SEE NO WAY IN WHICH SWITZERLAND, IN OR OUT OF THE IMF,

CAN EITHER REVERSE THE DIRECTION OF POLICY OR ISOLATE  
SWITZERLAND FROM ITS EFFECTS.  
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## Message Attributes

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